

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L CARACAS 10366

LIMDIS

EO 11652: XGDS DECEMBER 4, 1983

SUBJECT: PROPOSED OIL SUPPLY AGREEMENT

REF: CARACAS 10354

1. SUMMARY: KEY OFFICIAL OF VENEZUELA'S HYDROCARBONS MINISTRY HAS INFORMALLY PROPOSED IDEA OF OIL SUPPLY AGREEMENT, UNDER WHICH VENEZUELA WOULD GUARANTEE TO SUPPLY TO U.S. A FIXED QUANTITY OF OIL FOR DESIGNATED LONG-TERM PERIOD IN RETURN FOR WHICH U.S. WOULD GUARANTEE TO TAKE THAT VOLUME OF OIL FROM VENEZEULA. VENEZUELA WOULD NEGOTIATE SIMILAR AGREEMENTS WITH OTHER COUNTRIES IN THIS HEMISPHERE. ALL SUCH AGREEMENTS TOGETHER WOULD COMMIT VIRTUALLY ENTIRE VENEZUELAN PRODUCTION CAPABILITY, THEREBY GUARANTEEING STABILITY OF VENEZUELAN INCOME AND PERMITTING VENEZUELA TO RESIT PRESSURES THAT MIGHT COME FROM OPEC FOR PRODUCTION CUTS. ACTION REQUESTED: DEPARTMENT REQUESTED PROVIDE WASHINGTON REACTION AS PER FINAL PARAGRAPH. END SUMMARY.

2. RAMSEY MICHELENA, DIRECTOR OF OFFICE OF PETROLEUM ECONOMICS IN MINISTRY OF MINES AND HYDROCARBONS, CALLED IN EMBASSY PETROLEUM ATTACHE DECEMBER 4 TO DISCUSS ARAB PRESSURE ON VENEZUELA FOR CREATION WITHIN
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OPEC OF A PERMANENT PRODUCTION LIMITATIONS PROGRAM AFFECTING

ALL OPEC MEMBERS, (REFTEL) AND ALSO TO SEEK INFORMALLY U.S. VIEWS ON A SCHEME WHICH HE AND OTHERS WITHIN MINISTRY ARE PROPOSING IN ORDER TO AVOID THE DAMAGE THAT ARABS' SCHEME MIGHT OTHERWISE DO TO BOTH VENEZUELA AND U.S. INTERESTS.

3. MICHELENA'S PROPOSAL IS THAT U.S. AND VENEZUELA NEGOTIATE, VERY EARLY IN 1974, AN AGREEMENT UNDER WHICH VENEZUELA WOULD AGREE TO SUPPLY TO U.S. SPECIFIED VOLUME OF OIL OVER LONG-TERM PERIOD, IN RETURN FOR WHICH U.S. WOULD GUARANTEE TO TAKE THAT SAME VOLUME OF OIL OVER SAME LONG-TERM PERIOD. MICHELENA'S IDEA IS THAT VENEZUELA WOULD THEN NEGOTIATE SIMILAR AGREEMENTS WITH VARIOUS LATIN AMERICAN AND CARIBBEAN COUNTRIES, AND WITH CANADA (IF CANADA SO DESIRES). THE SUM TOTAL OF OIL UNDER ALL SUCH AGREEMENTS WOULD ADD UP TO ROUGHLY VENEZUELA'S PRESENT PRODUCTION, THEREBY LEAVING VENEZUELA IN POSITION OF BEING UNABLE TO AGREE TO REDUCE ITS PRODUCTION AS PART OF ANY OPEC PRODUCTION LIMITATION PROGRAM.

4. MICHELENA ALLEGES THAT HIS PROPOSAL IS NOT MERELY A PERSONAL IDEA, BUT IS SOMETHING THAT HAS WIDE SUPPORT FROM OFFICIALS WITHIN HIS MINISTRY. OBVIOUSLY, TO BE ADOPTED, SUCH A PROPOSAL WOULD ALSO REQUIRE SUPPORT AT POLITICAL LEVEL. MICHELENA WILL BE PROMOTING IDEA WITHIN THE GOVERNMENT, AND HE BELIEVES IT HAS GOOD CHANCE OF BEING ADOPTED WHICHEVER MAJOR PARTY WINS VENEZUELAN ELECTION.

5. EMBASSY WOULD APPRECIATE RECEIVING WHATEVER REACTION WASHINGTON COULD SUPPLY TO MICHELENA'S PROPOSAL. IT WOULD APPEAR TO EMBASSY THAT U.S. WOULD HAVE LITTLE TO LOSE AND MUCH TO GAIN BY NEGOTIATING AN AGREEMENT WITH VENEZUELA OF THE TYPE MICHELENA HAS IN MIND. FROM VENEZUELAN POINT OF VIEW, MICHELENA PROPOSAL MAY NOT LOOK GOOD ENOUGH IN CURRENT ATMOSPHERE OF ACUTE OIL SHORTAGE TO MAKE IT ATTRACTIVE TO VENEZUELAN POLITICAL LEADERSHIP AS DISTINCT FROM TECHNICAL LEVEL OFFICIALS IN HYDROCARBONS MINISTRY.
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6. ONE OTHER DIFFICULTY OF MICHELENA'S PROPOSAL, WHICH HE RECOGNIZES, IS THAT IT WOULD NOT BE EASY TO ESTABLISH FAIR PRICE FOR OIL TO BE SHIPPED UNDER THE AGREEMENT. MICHELENA RECKONS THAT SOME KIND OF FORMULA BASED ON PRICE INDEXES WOULD HAVE TO BE USED AND THERE WOULD HAVE TO BE PROVISION FOR PERIODIC READJUSTMENT OF PRICES.

7. ALTHOUGH IT WOULD BE IMPORTANT TO NEGOTIATE SUCH AN AGREEMENT EARLY IN NEW PRESIDENTIAL TERM (PREFERABLY WELL BEFORE CONGRESS GETS BACK IN SESSION AND SMALL LEFTIST PARTIES WEIGH IN WITH THEIR POLICY (REFERENCES) MICHELENA RECOGNIZES THAT THERE WOULD BE PROBLEMS IN IMPLEMENTING SUCH AN AGREEMENT WHILE ARAB BOYCOTT REMAINS FULLY IN FORCE.

8. MICHELENA'S PROPOSAL AS DISCUSSED IN THIS MESSAGE SHOULD BE DISTINGUISHED FROM THE PROPOSED US-VENEZUELAN ENERGY AGREEMENT WHICH WE HOPE TO BEGIN NEGOTIATING NEXT YEAR. THE MICHELENA PROPOSAL RELATES ONLY TO ALLOCATION OF EXISTING OIL SUPPLIES WHEREAS THE ENERGY AGREEMENT WOULD HOPEFULLY ESTABLISH CONDITIONS UNDER WHICH SUBSTANTIAL NEW VENEZUELAN RESERVES COULD BE BROUGHT INTO PRODUCTION. LATTER, HOWEVER, WOULD DOVETAIL QUITE NICELY WITH FORMER, WHICH MIGHT BE A VERY USEFUL STARTING POINT TOWARD GREATER US-VENEZUELAN COOPERATION IN ENERGY MATTERS. MICHELENA DID NOT SPECIFY ANY PROPOSED DURATION FOR HIS AGREEMENT BUT FIVE-TEN YEARS MIGHT BE LOGICAL.

9. ACTION REQUESTED: DEPARTMENT IS REQUESTED TO PROVIDE WHATEVER IT CAN ON WASHINGTON'S REACTION TO MICHELENA'S PROPOSED AGREEMENT. IT SEEMS TO US THAT IF HIS SUGGESTION FINDS A FAVORABLE RESPONSE IN USG, WE SHOULD DO EVERYTHING TO STRENGTHEN HIS HAND VIS-A-VIS THE POLITICIANS AND SUPERPATRIOTS (TO SAY NOTHING OF THE ARABS IN OPEC) WHO MAY SEEK TO DEFEAT HIS PROPOSAL.
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